Disaster Risk Financing
& Insurance Program

SUPPORTED BY
WORLD BANK GROUP

Financial Protection in Latin America & the Caribbean

Increasing the financial resilience of governments through regional collaboration and quantitative analyses

Federal Ministry
for Economic Cooperation
and Development

THE ROCKEFELLER FOUNDATION

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

Sida

UKaid
from the British people

USAID
FROM THE AMERICAN PEOPLE

Why is financial protection important to reduce poverty and increase shared prosperity?

Financial losses from natural disasters continue to rise. Developing countries and their low-income populations experience the greatest impacts.

The Disaster Risk Financing and Insurance Program (DRFIP) leads the dialogue on financial resilience as part of the World Bank Group's effort to support vulnerable countries in better managing disasters and climate shocks.

How we support governments

Natural disasters in LAC often have devastating economic impacts due to rapid urbanization and concentration of assets that are increasingly exposed to climate and seismic hazards. Despite of efforts to regulate and implement other risk mitigation measures, many countries in LAC are unable to keep up with construction and the pace of urban sprawl. Without adequate financial protection mechanisms, governments struggle to manage fiscal shocks caused by emergency-relief and reconstruction needs.

In Latin America and the Caribbean (LAC), the Disaster Risk Financing and Insurance Program (DRFIP) assists governments to become proactive risk managers through strategic financial planning and private sector development, especially in the areas of catastrophe insurance.

To address high-levels of urbanized risk common to LAC countries, DRFIP's efforts focus on **four main areas:**

1. **Design financial protection instruments** catered to national and sub-national governments
2. **Provide advice to governments** to increase catastrophe insurance coverage of public and private assets
3. **Develop quantitative analyses** to better inform financial and economic planning
4. **Build regional collaboration** across countries with similar risk profiles and inter-regional financial needs

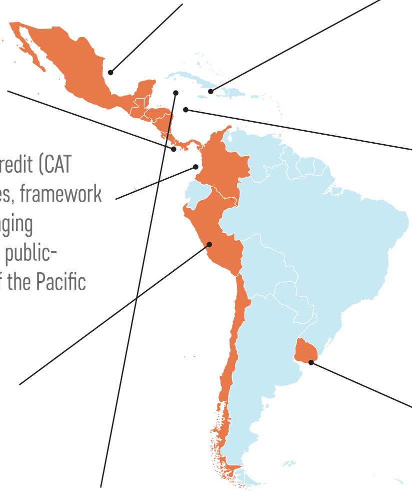
What we do

DRFIP supports governments in LAC through a tailored approach delivered through our business lines. Some examples include:

Mexico - Increased access to sub-national insurance for states; Cat-Bond analysis

Jamaica - strong technical assistance for improving the financial resilience to natural disasters, helping the country to move forward a public policy on DRF (to be passed by the Parliament), analyzing innovative risk transfer instruments, improving supervision of the local insurance market with the aim of increasing insurance penetration.

Panama - National DRFI Strategy and Implementation Plan; Panama is now a member of CCRIF SPC. Cost Benefit Analysis of different instruments to finance disaster response



CCRIF SPC – Expansion of Caribbean Catastrophe Risk Insurance Facility to Central America countries

Colombia - National and 3 subnational DRFI Strategy, Contingency Credit (CAT DDO); Strength of the insurance of public assets (insurance guidelines, framework agreements for insurance brokers, web information system for managing information about public properties and their insurance policies) and public-private partnerships; Cat Bond in the framework of the 4 countries of the Pacific Alliance; capacity building at national and subnational level

Pacific Alliance: on February 2018 the PA countries (Chile, Colombia, Mexico, and Peru) issued a US$1.36 billion Cat-Bond against earthquake hazard, on May 26th, 2019 Peru was struck by a 8.0 earthquake triggering a US$60 million payout. Currently we are working with the PA for developing a hydro meteorological cat-bond.

Peru - National DRFI Strategy; Contingency Credit (CAT DDO); Cost Benefit and gap Analysis of different instruments to finance disaster response; insurance of public assets and public-private partnerships

Uruguay - Contingent Credit Line to stabilize energy prices from climate-related shocks

COAST – Fisheries insurance initiative- since July 1st, 2019 Grenada and Saint Lucia fisherfolk are covered by a parametric insurance with the aim to provide quick payout directly to the hands of the fisherfolk, the coverage is against tropical cyclone and bad weather (defined as excess rain and weave height). The initiative is promoting: food security, livelihoods of fisherfolks, resilient fisheries, and disaster risk reduction .

Rapid-Response Financing: To better plan for and quickly respond to a disaster, governments need financial mechanisms that can provide immediate liquidity following an event.

- *Pacific Alliance* - Technical assistance to design and issue a joint CAT Bond for its four member countries: Chile, Colombia, Mexico, and Peru
- *Peru, Colombia, Panama and El Salvador* – Contingency financing is provided to governments through a line of credit (CAT DDO) so immediate liquidity is available if a natural disaster leads to a declaration of emergency.

Budget Protection: To become proactive risk managers, strategic planning and implementing financial instruments are needed to protect against fiscal shocks from natural hazards.

- *Colombia, Chile, Mexico and Peru:* Standardized database templated were provided for managing exposure and insurance property information, within the Pacific Alliance framework.
- *Colombia:* The world's first three subnational DRF strategies were launched three subnational DRF strategies were launched including their implementation plan.
- *Peru:* Public-private partnerships guidelines, including insurance, were issued, in line with international best practices.
- *Panama, Colombia, Peru, Guatemala and Jamaica* - National financial protection strategies were developed, including 5-year implementation plans.
- *Colombia:* Development of insurance guidelines for public assets (national and subnational level) and framework agreements for insurance brokers. Development of insurance guidelines for road infra-structure built through PPP

Homeowners & Small Businesses: Strengthening governments' capacity to oversee private property insurance markets is critical to ensure quality coverage and promote the uptake of insurance by homeowners and small businesses.

- *Peru* – Analyzed options for Catastrophe risk pools to help establish a private risk insurance market to increase the financial resilience of homeowners.

Agriculture:

- *Colombia:* Support the development of agricultural catastrophic insurance.
- *Peru:* Technical and actuarial recommendations of the SAC (Catastrophic Agricultural Insurance) were delivered to the Government

Analytics: To better manage fiscal shocks, governments require quantitative, financial and economic analyses and tools for risk-informed decision making.

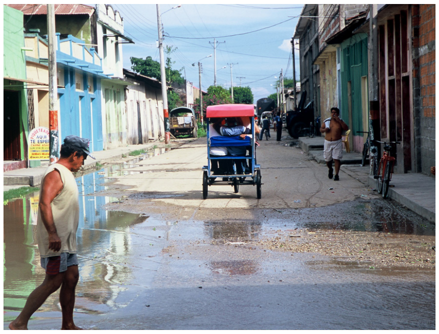
- *Peru and Panama* – A cost-benefit analysis was undertaken to evaluate different financial instruments, including risk transfer mechanisms such as catastrophe risk insurance from CCRIF.
- *Peru and Colombia* - A country risk profile and technical analysis were used to evaluate the catastrophe bond within the Pacific Alliance framework.
- *Colombia* - Beta version of a web-based information management system for national public assets, including building attributes and their respective insurance policies.

Global Policy, Knowledge & Training: Policy advice and training, and facilitating knowledge exchange among stakeholders support governments on policy reform and the design of new financial instruments.

- *Colombia and Peru* – Capacity building activities on DRF are ongoing with agencies at both the national and sub-national level.

Impact

The 2010–2011 La Niña rainy season exposed a gap in fiscal resources to manage hydrometeorological hazards in Colombia, and a later study concluded that there was a need for improved indemnity insurance for public buildings. The government partnered with DRFIP to evaluate new financial instruments to better manage disaster shocks, including risk transfer instruments such as a joint catastrophe bond with the four Pacific Alliance countries. An analysis of public insurance supported the government in establishing the Framework Agreements for Aggregating Insurance Broker Demand, new insurance guidelines for road infrastructure built trough PPP, insurance guidelines for public buildings at national and subnational level and an online information system to manage information on public buildings and property insurance policies. These financial instruments are complemented by a Cat DDO with WB and by the National Fund for DRM. In addition, Colombia launched the firsts sub national DRF strategies worldwide, and is advancing in its implementation with three subnational entities. All this process has been accompanied by capacity building at national and subnational level.



Flooded streeet in Gamarra, Colombia.
Photo: Scott Wallace / World Bank (CC BY-SA 2.0)

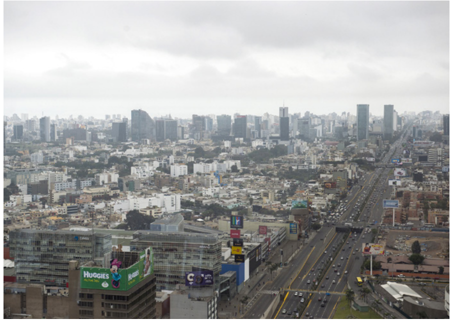
Panama

DRFIP is supporting the Financial Risk Management Unit of Panama's Ministry of Finance (DICRE) in the development of its first national DRFI strategic plan. The five-year work plan will include participation from several key stakeholders, which already paved the way to conduct a cost-benefit analysis to evaluate catastrophe insurance products offered by CCRIF. With this momentum and a strong legal framework to advance the DRFI agenda, Panama set its course to increase financial resilience for its vibrant economy and population.

Photo: Gerardo Pesantez / World Bank

Peru

Beginning in 2011, Peru has proactively worked to prepare for disaster-related financial shocks with support from DRFIP. DRFIP helped the government analyze its disaster related fiscal risk and evaluate the relative costs and benefits of different financial instruments, including risk transfer instruments such as a the joint catastrophe bond with the four Pacific Alliance countries. The Cat Bond complements other instruments in place such as. contigency credit lines, the Fiscal Stabilization Fund, contingency reserve, indemnity insurance, among others. Public-private partnership guidelines were issued by the MoF including insurance aspects. Technical support to Peru's Insurance Supervisory authority (SBS) led to stronger regulatory and supervisory capabilities, by strengthening the catastrophe reserve calculation regulation and related technical note and complementing the reinsurance and insurance regulation.



View of Lima. Photo: Franz Mahr / World Bank (CC BY-SA 2.0)

Uruguay

In recent years, Uruguay faced fluctuations of energy prices due the onset of drought that affected hydroelectric power generation. Since 2015, the government began implementing a US$200m project that includes a 100% contingent component (CIPF) to underpin the electricity generation to reduce dependence on hydropower. CIPF provides funds in case of drought and increased oil prices that reduce the Energy Stabilization Fund (FEE) below a minimum threshold. CIPF was designed using a dynamic financial analysis (DFA) performed by the DRFIP and the public electricity company (UTE), and also a stochastic model developed by the Universidad of Uruguay. DRFIP led an actuarial analysis to assess the economic benefits of reduced volatility of energy costs, and since 2015, the exposure of energy production costs has been reduced - in part due to heavy rains and more renewable sources being introduced into energy matrix.

Dam Palmar in Soriano Uruguay.
Photo: Marcelo Campi (CC BY-SA 2.0)

Pacific Alliance

By February 2018, the World Bank issued sustainable development bonds that collectively provide US$1.36 billion in earthquake protection to all member countries of the Pacific Alliance -- Chile, Colombia, Mexico and Peru. By structuring the transaction as a joint issuance, countries can benefit from cost savings for legal and other fees. The World Bank issued the transaction as part of its broader work to all member countries of the Pacific Alliance, in managing financial risks from natural disasters

Partnership

The DRFIP's work on Disaster Risk Financing and Insurance in Latin America and the Caribbean is generously supported by the European Union, Germany's Federal Ministry for Economic Cooperation and Development, the Government of Japan, the Rockefeller Foundation, the Swedish International Development Agency (SIDA), the Swiss State Secretariat for Economic Affairs (SECO), the United Kingdom's Department for International Development (DFID), and the United States Agency for International Development (USAID).

The World Bank Group's Disaster Risk Financing and Insurance Program is within the World Bank's Finance, Competitiveness and Innovation Global Practice. As a leading partner of developing countries, it helps governments, businesses, and households manage the financial impacts of disaster and climate risk without compromising sustainable development, fiscal stability, and well-being.

Olivier Mahul
omahul@worldbank.org

José Ángel Villalobos
jvillalobos@worldbank.org

DRF Community of Practice / Capacity Building
Kaavya: kashokkrishna@worldbank.org

www.worldbank.org/drfi
www.financialprotectionforum.org

Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

GFDRR
Global Facility for Disaster Reduction and Recovery